

Report  
of the  
Examination of  
Price County Town Mutual Insurance Company  
Phillips, Wisconsin  
As of December 31, 2004

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Jim Doyle**, Governor  
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June 16, 2005

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Honorable Jorge Gomez  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of  
December 31, 2004, of the affairs and financial condition of:

PRICE COUNTY TOWN MUTUAL INSURANCE COMPANY  
Phillips, Wisconsin

and the following report thereon is respectfully submitted:

## I. INTRODUCTION

The previous examination of Price County Town Mutual Insurance Company (the company) was made in 2000 as of December 31, 1999. The current examination covered the intervening time period ending December 31, 2004, and included a review of such subsequent transactions deemed essential to complete this examination.

The "Summary of Examination Results" contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on May 18, 1901, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Price County Farmers Mutual Fire Insurance Company of Phillips, Wisconsin. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there was one amendment to the articles of incorporation and no amendments to the bylaws. The amendment expanded the company's business to write in the following counties—Rusk, Sawyer, Taylor, and Vilas.

The company is authorized to write the following:

- a) Fire and extended coverage insurance, including windstorm and hail
- b) Other property insurance customarily provided with fire insurance, to the extent authorized by statute or rule
- c) Non-property insurance customarily provided with fire and extended coverage insurance to the extent authorized by statute or rule.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties: Ashland, Lincoln, Oneida, Price, Vilas, Taylor, Sawyer and Rusk.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with endorsements for terms of one or three years with premiums payable on the advance premium basis. Policy fees are charged policyholders for premiums paid by installment.

Business of the company is acquired through 23 agents, one of whom is a director of the company. All agents, except for the company's secretary/treasurer, receive a 12% commission. The company's secretary/treasurer receives no commission.

Only directors have the authority to adjust losses, non-director agents have no authority to adjust losses. If a loss is over \$2,500.00, two signatures are needed to pay the claim. Adjusters receive \$10-12 per hour for each loss adjusted plus \$0.37 per mile for travel expenses.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

## Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. The directors may fill vacancies on the board for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Rodger Nyberg	Tree Farmer	Ogema, WI	2007
Donald Onchuck	Farmer	Phillips, WI	2005
Leonard Schmidt	Carpenter Contractor	Park Falls, WI	2005
James Raleigh	Logger and Farmer	Brantwood, WI	2006
Paul Rose, Jr.	Road Maintenance	Butternut, WI	2005
Edward Hainy	Farmer	Phillips, WI	2007
George Valiga	Mink Rancher	Phillips, WI	2006
Rudy Haubert*	Secretary/Treasurer	Catawba, WI	2006
Edward Lasee	Logger	Phillips, WI	2007

\* Mr. Haubert is an agent of the company. He receives no commission on any business he writes.

Members of the board (except Mr. Haubert) currently receive \$30.00 for a regular board meeting and \$50.00 for an all day meeting. All board members receive \$0.37 per mile for travel expenses.

## Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	Annual Salary
Paul Rose, Jr.	President	\$ 200
Leonard Schmidt	Vice-President	100
Rudy Haubert	Secretary/Treasurer/Manager	29,500

## Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination include the investment committee and the adjusting committee. Both committees' members include the executive officers listed above.

## Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2004	\$447,803	1,954	\$128,028	\$1,286,803	\$880,439
2003	423,304	1,942	147,676	997,484	647,019
2002	372,177	1,932	101,695	886,228	528,344
2001	351,208	1,995	(49,286)	809,097	477,668
2000	357,618	2,000	(23,639)	888,009	540,813
1999	358,829	1,948	67,897	824,895	516,617

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Net	Ratios Gross
2004	\$804,333	\$456,221	\$880,439	91%	52%
2003	773,804	427,912	647,019	120	66
2002	700,193	397,956	528,344	133	75
2001	675,080	362,296	477,668	141	76
2000	675,250	367,214	540,813	125	68
1999	651,360	343,369	516,617	126	66

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Gross Incurred Loss Ratio	U/W Expense Ratio	Composite Ratio
2004	\$182,952	\$149,489	\$447,803	36%	33%	74%
2003	186,092	130,514	423,304	32	31	74
2002	179,036	144,359	372,177	40	36	84
2001	269,445	153,207	351,208	63	42	119
2000	245,267	163,990	357,618	45	45	113
1999	166,202	150,930	358,829	28	44	90

The number of policyholders has increased by less than 1% in the last five years, but direct premiums written and net premiums written have increased 23% and 33%, respectively, over that time.

The company attributes its recent success to increased rates and agents writing better business. The company's other underwriting expenses have remained relatively the same over the last five years, which with the premium increase has decreased the expense ratio from

44% down to 33%. The composite ratio has improved significantly over the past five years also due to agents writing better business. All of these factors have led to three consecutive years of net income and an increase in surplus of 70% over the past five years.

## II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation (WRC)
Effective date:	January 1, 2005, continuous
Termination provisions:	By either party, on any January 1, with 90 days' advance written notice.

The coverages provided under this treaty are summarized as follows:

- |                      |   |
|----------------------|---|
| Type of contract:    | Class A Excess of Loss Reinsurance  |
| Lines reinsured:     | All nonproperty business written by the company (casualty business)   |
| Company's retention: | \$500 each occurrence   |
| Coverage:            | 100% above the \$500 retention; the ceding company's aggregate retention shall not exceed the lesser of \$200,000 or 20% of the year-end surplus  |
| Policy limits:       | \$1,000,000 each occurrence, with a medical payment limit of \$5,000 per person and \$25,000 per accident<br><br>\$1,000 deductible to claimant for raw milk contamination occurrence unless the company can show evidence that they are part of the Dairy Quality Assurance program 12 months prior to the date of the claim. If not imposed, the company has to retain the \$1,000. |
| Reinsurance premium: | 75% of the gross liability premiums   |
- |                              |  |
|------------------------------|--|
| Type of contract:            | Class B First Surplus Reinsurance  |
| Lines reinsured:             | All property business written by the company   |
| Company's retention:         | \$200,000 for each occurrence  |
| Coverage:                    | Up to \$800,000 for each occurrence; if net retention is under \$200,000 for the company, the company may cede on a pro rata basis and WRC shall be obligated to accept up to 50.0% of such risk |
| Annual aggregate deductible: | 10% of the aggregate loss and loss adjusting expenses  |
| Reinsurance premium:         | Pro rata portion of the subject premium  |



	Ceding commission:	15% sliding scale
3.	Type of contract:	Class B Combination Excess of Loss and Quota Share Reinsurance Coverage
	Lines reinsured:	All property business written by the company
	Company's retention:	Part 1, Excess of Loss: \$30,000 for each occurrence Part 2, Quota Share: 90% up to \$27,000 for each occurrence
	Coverage:	Part 1, Excess of Loss: \$70,000 for each occurrence Part 2, Quota Share: 10% up to \$3,000 for each occurrence
	Reinsurance premium:	21.80% of net premiums written, less commissions
	Ceding commission:	18% sliding scale
4.	Type of contract:	Class C-2 Second Excess of Loss Reinsurance
	Lines reinsured:	All property business written by the company
	Company's retention:	\$100,000 for each occurrence
	Coverage:	100% up to \$100,000
	Reinsurance premium:	2.5% of net premiums written and an annual deposit premium of \$13,196
5.	Type of contract:	Class D/E Stop Loss Reinsurance
	Lines reinsured:	All property business written by the company
	Company's retention:	Combined aggregate losses up to 65% of net premiums written (minimum retention of \$260,000)
	Coverage:	100% of the amount exceeding the company's retention level
	Current annual premium:	7.0% of net premiums written and an annual deposit premium of \$38,490

### **III. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2004, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

**Price County Town Mutual Insurance Company**  
**Statement of Assets and Liabilities**  
**As of December 31, 2004**

<b>Assets</b>	<b>Ledger</b>	<b>Nonledger</b>	<b>Not Admitted</b>	<b>Net Admitted</b>
Cash in company's office	\$ 2,993	\$	\$	\$ 2,993
Cash deposited in checking account	70,840			70,840
Cash deposited at interest	758,777			758,777
Stocks and mutual fund investments	286,856			286,856
Real estate	6,213			6,213
Premiums, agents' balances and installments:				
In course of collection	24,102			24,102
Deferred and not yet due	117,539			117,539
Investment income accrued		2,753		2,753
Other expense-related assets:				
Reinsurance commission receivable	16,730			16,730
Furniture and fixtures	<u>5,051</u>	<u>          </u>	<u>5,051</u>	<u>          </u>
<b>Totals</b>	<b><u>\$1,289,101</u></b>	<b><u>\$2,753</u></b>	<b><u>\$5,051</u></b>	<b><u>\$1,286,803</u></b>

**Liabilities and Surplus**

Net unpaid losses	\$ 12,483
Unpaid loss adjustment expenses	1,000
Commissions payable	19,030
Fire department dues payable	216
Federal income taxes payable	39,310
Unearned premiums	261,674
Reinsurance payable	62,066
Amounts withheld for the account of others	1,838
Payroll taxes payable (employer's portion)	31
Other liabilities:	
Expense-related:	
Accounts payable	704
Nonexpense-related:	
Premiums received in advance	<u>8,012</u>
<b>Total Liabilities</b>	<b>406,364</b>
<b>Policyholders' surplus</b>	<b><u>880,439</u></b>
<b>Total Liabilities and Surplus</b>	<b><u>\$1,286,803</u></b>

**Price County Town Mutual Insurance Company**  
**Statement of Operations**  
**For the Year 2004**

Net premiums and assessments earned		\$447,803
Deduct:		
Net losses incurred	\$166,142	
Net loss adjustment expenses incurred	16,810	
Other underwriting expenses incurred	<u>149,489</u>	
Total losses and expenses incurred		<u>332,441</u>
Net underwriting gain (loss)		115,362
Net investment income:		
Net investment income earned		5,194
Other income (expense):		
Policy Fees		<u>57,624</u>
Net income (loss) before federal income taxes		178,180
Federal income taxes incurred		<u>50,152</u>
Net Income (Loss)		<u>\$128,028</u>

**Price County Town Mutual Insurance Company  
Reconciliation and Analysis of Surplus as Regards Policyholders  
For the Five-Year Period Ending December 31, 2004**

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Surplus, beginning of year	\$647,019	\$528,344	\$477,668	\$540,813	\$516,617
Net income	128,028	147,676	101,695	(49,286)	(23,639)
Net unrealized capital gains or (losses)	103,543	(24,987)	(52,042)	(15,158)	46,259
Change in nonadmitted assets	<u>1,849</u>	<u>(4,014)</u>	<u>1,023</u>	<u>1,299</u>	<u>1,576</u>
Surplus, end of year	<u>\$880,439</u>	<u>\$647,019</u>	<u>\$528,344</u>	<u>\$477,668</u>	<u>\$540,813</u>

**Reconciliation of Policyholders' Surplus**

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2004, is accepted.

#### IV. SUMMARY OF EXAMINATION RESULTS

##### Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Management and Control—It is suggested that the board of directors continue to discuss recruiting new directors, continue its recruiting for a new manager, and consider expanding the number of director positions to allow new directors to be mentored by the experienced directors.

Action—Compliance

2. Accounts and Records—It is recommended that the company properly segregate the duties of signing checks and reconciling month-end bank balances.

Action—Compliance

3. Disaster Recovery Plan—It is recommended that the company develop a comprehensive disaster recovery plan that would clearly identify what would be done in cases where it is not able to access its computers or the office building is destroyed.

Action—Compliance

4. Unearned Premium—It is recommended that the company adjust the year-end unearned premium report for those policies where their unearned premium balance is over 365 days.

Action—Compliance

5. Advance Premium—It is recommended that the company only include premiums received before year-end and in advance of the policy's effective dates.

Action—Compliance

## **Current Examination Results**

### **Corporate Records**

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

### **Conflict of Interest**

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

### **Fidelity Bond and Other Insurance**

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

<b>Type of Coverage</b>	<b>Coverage Limits</b>
Fidelity Bond	\$ 80,000
Professional Liability	1,000,000
Errors & Omissions	1,000,000
Commercial Property (structure)	65,000
Commercial Property (personal)	20,000
Personal Liability	1,000,000
Worker's Compensation	Statutory

## **Underwriting**

The company does have a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. All property covered in new insurance applications are photographed and fully described in the policy file. Company personnel review inspection reports. Agents are required to fill out a new inspection report when a policy is renewed (with a new photograph if needed), which is reviewed by company personnel.

## **Claims Adjusting**

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses; however, this committee does not ever meet formally. Instead, all claims are reviewed by the board of directors at every board of directors meeting.

## **Accounts and Records**

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2004.

The company is audited annually by an outside public accounting firm.



## **EDP Environment**

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computers is limited to people authorized to use the computers.

Company personnel back up the computers daily. The backed-up data is kept on-site in a fireproof safe and is also kept off-site to ensure protection of the company's records. The company also sends Wisconsin Reinsurance Corporation a copy of its backed-up data every quarter.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs.

## **Business Continuity Plan**

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

## **Invested Assets**

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
- (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the

presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

### **Investment Rule Compliance**

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1. Liabilities plus \$300,000	\$706,364
2. Liabilities plus 33% of gross premiums written	671,794
3. Liabilities plus 50% of net premiums written	634,475
4. Amount required (greater of 1, 2, or 3)	706,364
5. Amount of Type 1 investments as of 12/31/2004	<u>830,436</u>
6. Excess or (deficiency)	<u>\$124,072</u>

The company has sufficient Type 1 investments.

## **ASSETS**

### **Cash and Invested Cash**

**\$832,610**

The above asset is comprised of the following types of cash items:

Cash in company's office	\$ 2,993
Cash deposited in banks-checking accounts	70,840
Cash deposited in banks at interest	<u>758,777</u>
Total	<u>\$832,610</u>

Cash in company's office at year-end represents the company's petty cash fund.

Cash deposited in banks subject to the company's check and withdrawal consists of accounts maintained in one bank. Verification of the checking account balance was made by obtaining a confirmation directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 17 deposits in 12 depositories. Deposits were verified by direct correspondence with the respective depositories. Interest received during the year 2004 totaled \$16,141 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.40% to 4.25%. Accrued interest on cash deposits totaled \$2,753 at year-end.

### **Stocks and Mutual Fund Investments**

**\$286,856**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2004. Stocks owned by the company are located with the company's custodian.

Stock certificates were physically examined by the examiners. The company had no stock and mutual fund purchases or sales for the period under examination. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2004 on stocks and mutual funds amounted to \$2,424 and were traced to cash receipts records.

**Book Value of Real Estate****\$6,213**

The above amount represents the company's investment in real estate as of December 31, 2004. The company's real estate holdings consisted of its home office located in downtown Phillips.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

**Premiums, Agents' Balances in Course of Collection****\$24,102**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of detailed premium records and a review of the subsequent collection of the balance verified the accuracy of this asset.

**Premiums Deferred and Not Yet Due****\$117,539**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A recalculation of the company's detailed list of deferred premiums verified the accuracy of this asset.

**Investment Income Accrued****\$2,753**

Interest due and accrued for the company at December 31, 2004, consists entirely of cash deposited at interest.

**Reinsurance Contingent Commission Receivable****\$16,730**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2004, based on the profitability of the business ceded under its contract with the reinsurer. A review of the terms of the reinsurance agreement, the year-end accountings with the reinsurer and a review of the subsequent collection of the balance verified the above asset.

## LIABILITIES AND SURPLUS

### Net Unpaid Losses

**\$12,483**

This liability represents losses incurred on or prior to December 31, 2004, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2004, with incurred dates in 2004 and prior years. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	<b>Company Estimate</b>	<b>Examiners' Development</b>	<b>Difference</b>
Incurred but unpaid losses	\$16,213	\$12,233	\$3,980
Less: Reinsurance recoverable on unpaid losses	<u>3,730</u>	<u>3,417</u>	<u>313</u>
Net Unpaid Losses	<u>\$12,483</u>	<u>\$ 8,816</u>	<u>\$3,667</u>

This comparison showed that the difference between the company's estimate and the examiners' development was within an acceptable range. The examiners therefore made no adjustments.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

### Unpaid Loss Adjustment Expenses

**\$1,000**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2004, but which remained unpaid as of year-end. An inventory of amounts owed for settlements in the process of adjustment was made by the company in establishing this liability.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

**Commissions Payable** **\$19,030**

This liability represents the commissions payable to agents as of December 31, 2004. The examiners reviewed and in some cases recalculated the company's computations of agents' balances and commission allocations and found this liability to be correctly calculated.

**Fire Department Dues Payable** **\$216**

This liability represents the fire department dues payable to the State of Wisconsin as of December 31, 2004.

The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the insurance department's premium tax system.

**Federal Income Taxes Payable** **\$39,310**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2004.

The examiners reviewed the company's 2004 tax return and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

**Unearned Premiums** **\$261,674**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology. A recalculation of the company's detailed list of unearned premiums verified the accuracy of this asset.

**Reinsurance Payable** **\$62,066**

This liability consists of amounts due to the company's reinsurer at December 31, 2004, relating to transactions which occurred on or prior to that date. Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

**Amounts Withheld for the Account of Others** **\$1,838**

This liability represents employee payroll deductions in the possession of the company at December 31, 2004. Supporting records and subsequent cash disbursements verified this item.

**Payroll Taxes Payable** **\$31**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2004, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

**Accounts Payable** **\$704**

This liability represents the company's unpaid 2004 incurred general expense items. The examiners' review of subsequent payments verified the adequacy of this item

**Premiums Received in Advance** **\$8,012**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2004. The examiners reviewed 2004 premium and cash receipt records to verify the accuracy of this liability.

## **V. CONCLUSION**

The company reported assets of \$1,286,803, liabilities of \$406,364, and surplus of \$880,439 at year-end 2004. The number of policyholders has increased by less than 1% in the last five years, but direct premiums written and net premiums written have increased 23% and 33%, respectively, over that time.

The company attributes its recent success to increased rates and agents writing better business. The company's other underwriting expenses have remained relatively the same over the last five years, which with the premium increase has decreased the expense ratio from 44% down to 33%. The composite ratio has improved significantly over the past five years also due to agents writing better business. All of these factors have led to three consecutive years of net income and an increase in surplus of 70% over the past five years.

There was no adjustment made to surplus as a result of this examination. The company complied with all five of its prior examination recommendations. The current examination resulted in no adverse comments or recommendations.



## **VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

The examination resulted in no adverse comments or recommendations.

## **VII. ACKNOWLEDGMENT**

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Angie Romaker of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Rick Anderson  
Examiner-in-Charge